



Federal Tax Credits for Energy Efficiency

Energy Center fact sheet

2/2006

The Energy Policy Act of 2005 includes:

Tax Credits for Consumers

- Home Improvements
- Cars
- Solar Energy Systems
- Fuel Cells

Tax Credits for Home Builders

Tax Credits for Appliance Manufacturers

Tax Deductions for Commercial Buildings

A tax credit can provide significant savings. It reduces the amount of income tax you have to pay. Unlike a deduction, which reduces the amount of income subject to tax, a tax credit directly reduces the tax itself. The Treasury Department and the U.S. Internal Revenue Service (IRS) have now issued guidance ([Notice 2006-26](#), www.irs.gov/pub/irs-drop/n-06-26.pdf) on the certification that homeowners may rely on when they claim credits for purchases that make their homes more efficient. Additional information is available on the IRS Web site:

www.irs.gov/newsroom/article/0..id=154657.00.html

Not all ENERGY STAR® qualified homes and products qualify for a tax credit. These tax credits are available for a number of products at the highest efficiency levels, which typically cost much more than standard products. If, for whatever reason, you decide not to purchase a product covered by the tax credit, you should still consider purchasing an ENERGY STAR product. ENERGY STAR distinguishes energy efficient products which, although they may cost more to purchase than standard models, will pay you back in lower energy bills within a reasonable amount of time, without a tax credit.

Tax Credits for Consumers:

Home Improvements

Tax credits are available for many types of home improvements, including adding insulation, replacement windows, and certain high efficiency heating and cooling equipment. (See chart.) The maximum amount of homeowner credit for all improvements combined is \$500 during the two year period of the tax credit. This tax credit applies to improvements made from January 1, 2006 through December 31, 2007.

Efficient Cars

Tax credits are available to buyers of hybrid gasoline-electric, diesel, battery-electric, alternative fuel and fuel cell vehicles. The tax credit amount is based on a formula determined by vehicle weight, technology and fuel economy compared to base year models. These credits are available for vehicles placed in service starting January 1, 2006. For hybrid and diesel vehicles made by each manufacturer, the credit will be phased out over 15 months starting after that



manufacturer has sold 60,000 eligible vehicles. For vehicles made by manufacturers that have not reached the end of the phase-out, the credits will end for vehicles placed in service after December 31, 2010.

Solar Energy Systems

Tax credits are available for qualified solar water heating and photovoltaic systems. The credits are available for systems "placed in service" in 2006 and 2007. The tax credit is for 30 percent of the cost of the system, up to \$2,000. This credit is not limited to the \$500 home improvement cap.

Fuel Cells

There is a consumer tax credit of up to 30 percent of the cost (up to \$500 per 0.5 kW of capacity maximum) for installing a "qualified" fuel cell and microturbine systems. The credits are available for systems "placed in service" in 2006 and 2007. This credit is not limited to the \$500 home improvement cap.

ENERGY POLICY ACT OF 2005 DRAFT SUMMARY OF TAX CREDITS FOR HOMEOWNERS¹ (US Treasury has not yet provided final interpretation for IRS use)				
Product Category	Product Type	Tax Credit Specification	Tax Credit	Notes
Windows	Exterior Windows	Meets 2000 IECC & Amendments	10% of cost, up to \$200*	ENERGY STAR windows will almost always qualify, except for certain parts of California.
	Skylights	Meets 2000 IECC & Amendments	10% of cost, up to \$200*	ENERGY STAR skylights will almost always qualify, except for certain parts of California.
	Exterior Doors	Meets 2000 IECC & Amendments	10% of cost, up to \$500*	ENERGY STAR doors will almost always qualify, except for certain parts of California.
Roofing	Metal Roofs	ENERGY STAR qualified	10% of cost, up to \$500*	All ENERGY STAR labeled metal roofs qualify for the tax credit. www.energystar.gov/index.cfm?c=roof_prods.pr_roof_products
Insulation	Insulation	Meets 2000 IECC & Amendments	10% of cost, up to \$500*	
HVAC	Central A/C	EER 12.5/SEER 15 Split Systems EER 12/SEER 14 Package systems	\$300*	Note - not all ENERGY STAR products will qualify for the tax credit. The ENERGY STAR specification is: EER 11.5/ SEER 14 Split systems EER 11/SEER 14 Package systems
	Air Source Heat Pumps	HSPF 9 EER 13 SEER 15	\$300*	Note - not all ENERGY STAR products will qualify for the tax credit. The ENERGY STAR specification is: HSPF 8.2 EER 11.5 SEER 14 Split systems HSPF 8 EER 11 SEER 14 Package systems
	Geo-Thermal Heat Pump	Same criteria as ENERGY STAR: EER 14.1 COP 3.3 Closed Loop EER 16.2 COP 3.6 Open Loop EER 15 COP 3.5 Direct Expansion	\$300*	All ENERGY STAR labeled geo-thermal heat pumps qualify for the tax credit. www.energystar.gov/index.cfm?c=geo_heat.pr_geo_heat_pumps

HVAC	Gas, Oil, Propane Water Heater	Energy Factor 0.80	\$300*	Only some tankless water heaters currently qualify. This is about 20 percent more efficient than the current federal standard. For a list of qualifying products go to the Gas Appliance Manufacturing Association. www.gamanet.org/gama/inforesources.nsf/vContentEntries/Product+Directories?OpenDocument
	Electric Heat Pump Water Heater	Energy Factor 2.0	\$300*	This is more than twice as efficient as the current federal standard.
	Gas, Oil, Propane Furnace or Hot Water Boiler	AFUE 95 for both furnaces and boilers	\$150*	Note - not all ENERGY STAR products will qualify for the tax credit. The ENERGY STAR specification is: AFUE 90 for furnaces AFUE 85 for boilers
	Advanced Main Air Circulating Fan	No more than 2% of furnace total energy use	\$50*	For a list of qualifying products go to the Gas Appliance Manufacturing Association. www.gamanet.org/gama/inforesources.nsf/vContentEntries/Product+Directories?OpenDocument
Cars	Cars	Hybrid gasoline-electric, diesel, battery-electric, alternative fuel, and fuel cell vehicles	Based on a formula determined by vehicle weight, technology, and fuel economy compared to base year models	There is a 60,000 vehicle limit per manufacturer before a phase-out period begins. Consumers who buy from companies that already sell large numbers of qualifying vehicles will experience a relatively short "window of opportunity" for the credits.
Solar Energy Systems	Solar Water Heating	The system must use solar power to provide at least half of a home's hot water. The credit is not available for expenses for swimming pools or hot tubs. The water must be used in the dwelling and the system must be certified by the Solar Rating and Certification Corporation (SRCC).	30% of cost, up to \$2,000	
	Photovoltaic Systems	Photovoltaic systems must provide electricity for the residence, and must meet applicable fire and electrical code requirement.	30% of cost, up to \$2,000	
Fuel Cells	Fuel Cells	Efficiency of at least 30% and must have a capacity of at least 0.5 kW.	30% of the cost, up to \$1,000 per kW of power that can be produced	

*Subject to a \$500 maximum per homeowner for all improvements combined.

The Tax Incentives Assistance Project (TIAP – www.energytaxincentives.org) is designed to give consumers and businesses the information needed to make use of the federal income tax incentives for energy efficient products and technologies. The project is sponsored by a coalition of public interest nonprofit groups, government agencies and other organizations in the energy efficiency field.

Frequently Asked Questions

Rebates, Deductions, and Credits - What's the difference?

Tax deductions reduce your overall taxable income with the value of the deduction dependent on your tax bracket. For example, if you are eligible for a \$1,000 deduction and are in the 20 percent tax bracket, the deduction will reduce your taxes by \$200. Tax incentives, such as the ones provided for in the 2005 Energy Policy Act, reduce taxes owed dollar for dollar. Rebates are simplified tax incentives- instead of reducing the amount of tax you owe; rebates reduce the cost of a purchase, such as a new cell phone. Rebates on energy-efficiency investments are offered by some utilities and states (see www.energytaxincentives.org/tiap-state-utility-incentives.html).

What paperwork or forms are needed to prove improvements were made, and where can I find them?

The IRS will publish the necessary forms and guidelines during 2006.

I made improvements to my home/purchased an eligible vehicle in 2005. Am I eligible for a tax credit?

The eligibility period for when measures are “placed in service” is from January 1, 2006 until December 31, 2007. Improvements and purchases “placed in service” prior to this period are not eligible.

Who can I call for further questions about the tax incentives?

Currently, TIAP is not funded sufficiently to support a phone line. Please direct all questions to tiap@aceee.org, or call the Department of Energy at 1-800-dial-DOE.

How do the federal tax incentives interact with credits or rebates provided by my state or utility?

This question is relevant for federal credits that are based on the cost of a measure. For credits that are fixed (e.g. \$300 for an eligible air conditioner), the federal credit is not affected by state credits or utility rebates. For federal credits that depend on the cost of a measure (e.g. upgrades to existing homes and solar energy systems), the federal credit will generally be calculated after deducting the value of utility or state incentives. For example, if upgraded insulation costs \$1,500 and is eligible for a \$300 state credit, the federal credit is calculated on the cost after subtracting the state credit. In this example, the federal credit will be \$120, which is 10 percent of the net cost of \$1,200 after the state credit is subtracted. For more information please contact your state energy office or local utility.

How will the Alternative Minimum Tax affect me?

At this time, we believe that purchasers subject to AMT may not receive the full benefit of the credit; however the IRS has yet to come out with a final ruling. To determine how AMT will impact you, we recommend that you speak with a tax professional.

What is the limit for consumer tax credits capped at?

Consumers are eligible for up to \$500 per home. Improvements of lesser amounts can be bundled together to equal this cap over the two year period.

Where can I find a list of energy consultants?

Consumers can find certified home energy raters through the RESNET Web site at www.natresnet.org/directory/rater_directory.asp.

What is the status of tax credits for corn, pellet or wood-burning stoves?

Under the 2005 Energy Act, there are no provisions for a credit for these types of heating units. A rebate may be instituted depending on federal appropriations. For more information, see www.pelletheat.org/2/index/bass.html.

How efficient does my new furnace or boiler have to be in order to qualify for a credit?

Furnaces and boilers have to meet an Annual Fuel Use Efficiency (AFUE) of 95 percent or better, as defined in DOE test procedures. However, a unit with an efficient furnace fan (i.e. one that meets the CEE/GAMA specification) can earn a \$50 credit regardless of its AFUE.

I own an apartment building. Do the improvements I have made within the building qualify for a credit?

If the building is not your primary residence, you cannot claim the consumer credits. Specific guidelines and the final ruling on this are to be determined by the IRS. Some rental property owners may qualify for tax deductions under the commercial buildings incentives.

Can I receive a tax credit for a programmable thermostat?

Credits are not available for programmable thermostats in the 2005 energy bill.

How do I know what type of window I need to qualify for a tax credit?

Window qualifications are based on the 2000 IECC model energy code, including supplements. ENERGY STAR windows will almost always qualify. For more information on qualifying products in your climate zone, click here: www.efficientwindows.org/energystar.cfm.

For More Information

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P.O. Box 176
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1-800-361-4827 or (573) 751-3443
E-mail: energy@dnr.mo.gov
Web site: www.dnr.mo.gov/energy/index.html